

**STATEMENT OF
MICHAEL SLACHTA, JR.**

**ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF VETERANS AFFAIRS**

DEPARTMENT OF VETERANS AFFAIRS MEDICAL RESEARCH PROGRAMS

**SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS**

September 19, 2002

Mr. Chairman and Members of the Subcommittee:

I am here today to discuss the results of our work related to nonprofit research and education foundations affiliated with the Veterans Health Administration facilities. Specifically, I will provide:

- Our comments to the Department's updated response to your questionnaire on nonprofit research and education corporations, and
- Summarize our Fiscal Year (FY) 2002 results of onsite reviews we performed at two VA affiliated nonprofit research and education corporations.

The Department's updated submission to the Subcommittee's questions is more responsive. The Department has offered to compile national data on corporate expenditures and fund use. Compiling data nationally will improve visibility over corporate operations and the business relationship corporations have with VA. It will also improve the ability of the Department to oversee corporate activities and ensure research funds are used only to benefit VA research. Aggregation of revenues and expenditures nationally will also enhance Congressional visibility over corporate activities. The Department should compile:

- "Other donations" such as those made to the General Post Fund,
- Reimbursements made to the medical care appropriation,
- Medical Centers that were reimbursed and the amount of each reimbursement,
- Research projects terminated in the last 5 fiscal years, and the reasons for their termination,

- Research projects that were completed in the last 5 fiscal years, and for those completed that had funds remaining, the amount of remaining or unused funds.

The Department also stated that it...” will instruct its facilities to determine how much of VA approved research funds were administered by VA research corporations”. We support that direction and believe the Department should also ensure that work performed by corporations is consistent with national Departmental goals.

In FY 2002, we reviewed operations at two nonprofit research and education corporations. Overall, we concluded that the corporations benefited VA by making available corporate funds to renovate Department facilities, obtain state-of-the art research equipment, and administer research projects. Nothing came to our attention indicating that controls over expenditure and fund usage at these facilities was inadequate.

However, we believe there are opportunities to further improve oversight and accountability of research and education corporations without losing the flexibilities intended by the Congress when it authorized the establishment of VA nonprofit research and education corporations. In particular, we believe oversight would benefit by:

- Requiring corporations to adopt accrual basis accounting.
- Standardizing financial reporting.
- Establishing a Department office to oversee corporate annual reporting.
- Improving Departmental guidance defining research expenditures.
- Consolidating research corporations, particularly in locations where VA facilities have integrated or merged operations.

Our reviews found that:

- Some corporations use cash-basis or modified cash-basis accounting while others use accrual based accounting. Cash-basis accounting or modified cash-basis accounting is referred to as a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). We recommend that corporations comply with GAAP accounting and reporting practices to ensure consistent financial reporting to the Congress.
- Standardizing financial reporting will enhance the corporation's ability to identify, charge and recover appropriate overhead costs for the services provided. The independent annual certified financial reports corporations submitted in support of Congressional reporting requirements are not designed to provide the level of detail needed to verify the need and justification of the expenditure.

Standardized financial reporting, beginning with a standardized chart of accounts, would enhance visibility over corporate financial activities.

- Departmental responsibility for collection and summarization of the annual financial and performance information is rotated among VHA research staff, and the information is forwarded without substantive review. We believe the consistency and accuracy of reporting would be improved assigning responsibility to a VA program office that would review of the information and take appropriate follow-up action to ensure annual reports are accurate, reliable, and complete.
- The Department should look for opportunities to consolidate the number of research corporations, to avoid unnecessary administrative costs, reduce unnecessary infrastructure, and facilitate oversight by reducing the number of corporate entities. The Department has integrated and consolidated many of its health care facility operations, however, similar actions to merge VA research and education corporations have not followed. We feel VA could benefit by initiating a study to assess the feasibility of consolidating the current number of VA entities.

VA research and education corporations provide significant benefits to VA, but improved financial and administrative control can improve oversight and accountability. I will be pleased to answer any questions the committee may have.